21. Other financial assets and liabilities

21.1 Other financial assets

	Group		Company	
	31 March 2022 Rm	31 March 2021 Rm	31 March 2022 Rm	31 March 2021 Rm
Non-current other financial assets	113	81	10	–
Other financial assets at amortised cost				
Asset finance receivables	103	81	–	–
Other financial assets at fair value through profit or loss				
Investment in SA SME Fund	10	–	10	–
Current other financial assets	69	88	68	88
Other financial assets at fair value through profit or loss				
Derivative instruments used for hedging				
Forward exchange contracts	16	–	16	–
Firm commitments	53	88	52	88

Investment in SA SME Fund

In 2016, the private sector formed the SA SME Fund, the purpose of which is to stimulate investments in high-potential SMEs. This partnership of the fund and the accredited companies will also build a high-quality mentorship cohort to support said enterprises and entrepreneurs. Pursuant to the aforesaid initiative, various leading private sector entities committed to provide equity funding to the fund.

In the current financial year, Telkom entered into an agreement with this fund in terms of which Telkom will provide equity funding through share subscriptions at a value of R10 million. Telkom does not have control over the fund as it only holds 0.72% interest in the fund. The investment is classified at fair value through profit or loss. The fair value of the investment is equivalent to its cost price.

21.2 Other financial liabilities

	Group		Company	
	31 March 2022 Rm	31 March 2021 Rm	31 March 2022 Rm	31 March 2021 Rm
Non-current other financial liabilities	(106)	(107)	–	–
Other financial liabilities at amortised cost				
Asset finance payables	(106)	(107)	–	–
Current other financial liabilities	(527)	(622)	(242)	(2 248)
Other financial liabilities at amortised cost	(253)	(200)	–	(1 854)
Asset finance payables	(94)	(86)	–	–
Vendor financing	(159)	(114)	–	–
BCX treasury fund[1]	–	–	–	(1 854)
Other financial liabilities at fair value through profit or loss	(274)	(422)	(242)	(394)
Derivative instruments used for hedging	(252)	(400)	(242)	(394)
Forward exchange contracts	(147)	(179)	(137)	(173)
Firm commitments	(36)	(19)	(36)	(19)
Interest rate swaps	(69)	(202)	(69)	(202)
Financial guarantees	(22)	(22)	–	–

[1] *The BCX treasury fund decreased mainly due to the dividend declared by BCX to Telkom Company in the current financial year.*

The movement in the forward exchange contracts and firm commitments relates to the volatility of the forex market. The decrease in the interest rate swaps liability is due to the realisation of the losses. The Group pays the fixed interest leg of the swap and receives the floating interest leg in return. The interest rate swaps are used to hedge the debt which is predominately floating rate debt.

Notes to the financial statements continued

for the year ended 31 March 2022

21. Other financial assets and liabilities continued

21.2 Other financial liabilities continued

Financial guarantee

The sale of Business Connexion ICT Services (BCX Nigeria), previously a wholly owned subsidiary of Business Connexion International Group Holdings, was concluded on 31 January 2020. BCX has, in the prior years, provided Stanbic Bank with a financial guarantee in respect of BCX Nigeria's banking facility with Stanbic Bank to the value of USD1.4 million. As part of the disposal agreement, BCX Nigeria needs to contractually reduce BCX's guaranteed exposure by an average amount of USD375 000 per quarter, starting on 31 March 2020, and then quarterly thereafter. The guarantee period ends 31 December 2022.

The total exposure on the financial guarantee relating to Nigeria (now a third party – Arravo Global Services) amounts to R22 million as at 31 March 2022 (31 March 2021: R22 million), based on an expected credit loss (ECL) valuation that was performed to quantify the potential exposure. The total exposure of the financial guarantee will be triggered if Arravo is unable to meet its obligations in terms of the repayment agreement. During the current financial year, the default probability has been assessed by management as being likely. Management accounted for the full exposure as a financial guarantee liability and this is disclosed as part of other financial liabilities.

Derivatives

Derivatives held for risk management purposes include hedges that either meet the hedge accounting requirements or economic hedges that do not meet the hedge accounting requirements. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Derivatives that do not meet the hedge accounting requirements:
The Group uses forward exchange contracts and interest rate swaps to economically hedge its foreign exchange and interest rate exposures. This relates to the "Other" category of forward exchange contracts as referred to in note 14.5. These derivative instruments are measured at fair value through profit or loss.

Derivatives that meet the hedge accounting requirements:
The Group uses forward exchange contracts to hedge its exposure to changes attributable to movements in the spot exchange rate of its firm commitments. These derivatives are designated as fair value hedges.

Fair value hedge

The foreign forward exchange contracts, designated as fair value hedges, are being used to hedge the exposure to changes attributable to movement in the spot exchange rate of firm commitments.

The Group implements fair value hedge accounting where the hedging relationship meets the requirements of IAS 39.

Hedge effectiveness is determined at inception of the hedge relationship and at every reporting period end through the assessment of the hedged items and hedging instrument to determine whether there is still an economic relationship between the two.

The critical terms of the hedging instrument entered into exactly match the terms of the hedged item. As such, the economic relationship and hedge effectiveness are based on the qualitative factors and the use of a hypothetical derivative, where appropriate.

	Group				
		Carrying amount of the hedging instrument			
Derivatives that meet the hedge accounting requirements:	Nominal amount of the hedging instrument Rm	Assets Rm	Liabilities Rm	Line item in the statement of financial position where the hedging instrument is located	Changes in fair value used for calculating hedge effectiveness Rm
2022					
Foreign exchange risk fair value hedging relationship					
Forward exchange contracts	**4 233**	**16**	**(147)**	**Other financial assets and other financial liabilities**	**121**
2021					
Foreign exchange risk fair value hedging relationship					
Forward exchange contracts	2 963	–	(179)	Other financial assets and other financial liabilities	460

	Company				
	Nominal amount of the hedging instrument Rm	Carrying amount of the hedging instrument Assets Rm	Carrying amount of the hedging instrument Liabilities Rm	Line item in the statement of financial position where the hedging instrument is located	Changes in fair value used for calculating hedge effectiveness Rm
2022					
Foreign exchange risk fair value hedging relationship					
Forward exchange contracts	**3 898**	**16**	**(137)**	**Other financial assets and other financial liabilities**	**121**
2021					
Foreign exchange risk fair value hedging relationship					
Forward exchange contracts	2 661	–	(173)	Other financial assets and other financial liabilities	460

A decrease in fair value of the forward exchange contracts, designated as fair value hedges, of R121 million (31 March 2021: R460 million) has been recognised in finance charges and fair value movements and offset with a similar gain on the hedged items (property, plant and equipment and inventory). The ineffective portion recognised in the current financial year was immaterial.

22. Net cash and cash equivalents and restricted cash

22.1 Net cash and cash equivalents

	Group		Company	
	31 March 2022 Rm	31 March 2021 Rm	31 March 2022 Rm	31 March 2021 Rm
Cash disclosed as current assets	**3 239**	5 003	**665**	2 041
Cash and bank balances	**3 104**	3 637	**530**	675
Short-term deposits	**135**	1 366	**135**	1 366
Credit facilities utilised	**–**	(1)	**–**	–
Net cash and cash equivalents	**3 239**	**5 002**	**665**	**2 041**
Undrawn borrowing facilities	**4 900**	6 578	**4 600**	5 750

The significant decrease in short-term deposits and the overall decrease in cash and cash equivalents is due to cash outflows attributable to capex spend. The Group utilised available cash throughout the year and did not obtain funding except for the spectrum auction payment.

The undrawn borrowing facilities are unsecured and bear interest at a rate that will be mutually agreed between the borrower and lender at the time of drawdown. These facilities are subject to annual review and are in place to ensure liquidity. At 31 March 2022, R4.35 billion (31 March 2021: R5.5 billion) of these undrawn facilities were committed.

Short-term deposits

Short-term deposits are made mostly for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

Borrowing powers

Telkom's Directors may mortgage or encumber Telkom's property, or any part thereof, and issue debentures, whether secured or unsecured, whether outright or as security for debt, liability or obligation of Telkom or any third party. For this purpose, the borrowing powers of Telkom are unlimited, but are subject to the restrictive financial covenants as well as specific restrictive clauses in the current funding arrangements.